

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Colfax Township	County Mecosta
Fiscal Year End 03/31/2007	Opinion Date 09/13/2007	Date Audit Report Submitted to State September 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789		
Street Address 134 W. Harris Street		City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 		Printed Name Steven C. Arends		License Number 1101013211

COLFAX TOWNSHIP, MECOSTA COUNTY

RODNEY, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

MARCH 31, 2007

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September 13, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Colfax Township
Mecosta County
Rodney, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Colfax Township, Mecosta County, Rodney, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Colfax Township, Mecosta County, Rodney, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colfax Township, Mecosta County, Rodney, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Colfax Township, a general law township located in Mecosta County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Colfax Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$1,137,483. Of this amount, \$546,507 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental fund reported ending fund balance of \$546,507. All of the fund balance is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$1,137,483 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Colfax Township
Net Assets as of March 31,

	Governmental Activities	
	2007	2006
Assets		
Current Assets	\$ 547,049	\$ 711,922
Non Current Assets		
Capital Assets	819,985	556,221
Less: Accumulated Depreciation	(229,009)	(206,821)
Total Non Current Assets	590,976	349,400
Total Assets	\$ 1,138,025	\$ 1,061,322
Liabilities		
Other Liabilities	\$ 542	\$ 1,448
Net Assets		
Invested in Capital Assets	590,976	349,400
Unrestricted	546,507	710,474
Total Net Assets	1,137,483	1,059,874
Total Liabilities and Net Assets	\$ 1,138,025	\$ 1,061,322

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township is not responsible for any long-term debt as of March 31, 2007.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Colfax Township
Change in Net Assets
for the Fiscal Year Ended March 31,

	Governmental Activities	
	2007	2006
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 25,605	\$ 25,311
Operating Grants and Contributions	3,556	3,732
Capital Grants and Contributions	0	4,500
General Revenues		
Taxes	75,677	75,533
State Shared Revenue	134,358	156,450
Investment Earnings	20,610	18,723
Other	6,809	3,038
Total Revenues	266,615	287,287
<u>Expenses</u>		
Legislative	40,346	33,801
General Government	93,699	85,299
Public Safety	25,653	37,290
Public Works	2,357	1,320
Community and Economic Development	978	324
Other Functions	3,785	3,857
Unallocated Depreciation	22,188	19,445
Total Expenses	189,006	181,336
Change in Net Assets	77,609	105,951
NET ASSETS - Beginning of Year	1,059,874	953,923
NET ASSETS - End of Year	<u>\$ 1,137,483</u>	<u>\$ 1,059,874</u>

Governmental Activities

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$77,609 or 7% in the governmental funds. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

The revenue from property taxes amounted to \$75,410. The Township levied 1.2426 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In fiscal year 2007, the amount of state shared revenue received by the Township trended downward.

The Township's governmental activities expenses are dominated by general governmental expenses that total 50% of total expenses. The Township spent \$93,699 in fiscal year 2007 on General Administrative expenses. Legislative represented the next largest expense at \$40,346, or 21% of total expenses. Expenses for salaries and contracted services represent a large portion of the General Administrative expenses at \$65,599.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Colfax Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Colfax Township's governmental fund reported ending fund balance of \$546,507. Of this amount, \$542,603 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance reserved for telecommunication right-of-way must be used for expenditures that relate to telecommunications right-of-way.

General Fund – The General Fund decreased its fund balance by \$163,967 which brings the fund balance to \$546,507. Of the General Fund's fund balance, \$542,603 is unreserved. Two of the General Fund's functions ended the year with expenditures over budgeted amounts. Property taxes amounted to \$75,410. State shared revenues were collected in the amount of \$134,358.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental and business-type activities as of March 31, 2007 amounted to \$590,976 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 69%.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. In addition, the Township occasionally capitalizes items under the \$5,000 threshold. A summary of capital asset categories is illustrated below:

COLFAX TOWNSHIP, MECOSTA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2007

Colfax Township
Capital Assets as of March 31,

	Governmental Activities	
	2007	2006
Land	\$ 41,642	\$ 41,642
Land Improvements	64,901	64,901
Construction in Progress	0	17,340
Buildings	475,770	194,666
Equipment, Furniture and Fixtures	237,672	237,672
	819,985	556,221
Less Accumulated Depreciation	(229,009)	(206,821)
Net Capital Assets	\$ 590,976	\$ 349,400

Major capital asset events during the current fiscal year consisted of:

- Remodeling the Township hall at a cost of \$263,764.

Long-Term Debt. Colfax Township has no obligation for any long-term debt as of March 31, 2007.

Economic Condition and Outlook

State-shared revenues are expected to remain the same in the 2007-08 fiscal year. The Township's millage rate will be reduced by the Headlee Amendment rollback from the 1.2426 mills for general operating purposes levied in 2006-2007.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Colfax Township at P.O. Box 22, Rodney, Michigan 49342.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 518,153
Receivables	
Taxes	6,724
External Party (Fiduciary Fund)	113
Due From Other Governments	<u>22,059</u>
Total Current Assets	<u>547,049</u>
<u>CAPITAL ASSETS</u>	
Land	41,642
Land Improvements	64,901
Buildings	475,770
Equipment, Furniture and Fixtures	<u>237,672</u>
	819,985
Less Accumulated Depreciation	<u>229,009</u>
Net Capital Assets	<u>590,976</u>
TOTAL ASSETS	<u>1,138,025</u>
<u>LIABILITIES</u>	
Accounts Payable	<u>542</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	590,976
Unrestricted	<u>546,507</u>
TOTAL NET ASSETS	<u>\$ 1,137,483</u>

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGE IN NET ASSETS
TOTAL GOVERNMENTAL ACTIVITIES					
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 40,346	\$ 0	\$ 0	\$ 0	\$ (40,346)
General Government	93,699	25,605	3,556	0	(64,538)
Public Safety	25,653	0	0	0	(25,653)
Public Works	2,357	0	0	0	(2,357)
Community and Economic Development	978	0	0	0	(978)
Other Functions	3,785	0	0	0	(3,785)
Unallocated Depreciation	22,188	0	0	0	(22,188)
Total Governmental Activities	\$ 189,006	\$ 25,605	\$ 3,556	\$ 0	(159,845)
<u>GENERAL REVENUES</u>					
Taxes					75,677
State Shared Revenue					134,358
Investment Earnings					20,610
Other					6,809
Total General Revenues					237,454
Change in Net Assets					77,609
NET ASSETS - Beginning of Year					1,059,874
NET ASSETS - End of Year					\$ 1,137,483

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2007

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 518,153
Taxes Receivable	6,724
Due from Other Funds	113
Due from Other Governments	<u>22,059</u>
Total Assets	<u><u>\$ 547,049</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$ 542</u>
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FUND BALANCE

Reserved	
Reserved for Telecommunications Right-of-Way	3,904
Unreserved	
Undesignated	<u>542,603</u>
Total Fund Balance	<u><u>546,507</u></u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 547,049</u></u>
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The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balances for Governmental Funds	\$ 546,507
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 41,642	
Land Improvements	64,901	
Buildings	475,770	
Equipment, Furniture and Fixtures	237,672	
Accumulated Depreciation	(229,009)	590,976

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,137,483</u>
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The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY

RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	GENERAL FUND
<u>REVENUES</u>	
Taxes	\$ 75,677
Licenses and Permits	5,371
State Grants	137,914
Charges for Services	20,234
Interest and Rents	20,610
Other Revenues	6,809
Total Revenues	266,615
<u>EXPENDITURES</u>	
Legislative	47,771
General Government	350,038
Public Safety	25,653
Public Works	2,357
Community and Economic Development	978
Other Functions	3,785
Total Expenditures	430,582
Excess (Deficiency) of Revenues Over Expenditures	(163,967)
<u>FUND BALANCE</u> - Beginning of Year	710,474
<u>FUND BALANCE</u> - End of Year	\$ 546,507

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (163,967)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(22,188)
Capitalized Capital Outlay	<u>263,764</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 77,609</u></u>
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The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 912
	<hr/>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 113
Due to Other Governments	799
	<hr/>
TOTAL LIABILITIES	\$ 912
	<hr/>

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Colfax Township is a general law township located in Mecosta County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Colfax Township reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally Colfax Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

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MARCH 31, 2007

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from date of acquisition.

The Township's investment policy states that the Township Treasurer may invest township funds in the following:

Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.

Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.

Repurchase agreements consisting of instruments listed in subdivision (a).

Bankers' acceptances of United States banks.

Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- (i) The purchase of securities on a when-issued or delayed delivery basis.
- (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
- (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of Colfax Township totaled \$54,078,365, on which ad valorem taxes levied consisted of 1.2426 mills for Colfax Township operating purposes. The levy raised approximately \$75,410 for operating purposes.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20-25
Land Improvements	25
Equipment, Furniture and Fixtures	5-15

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 15, 2006 or as amended by the Township Board from time to time.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Chemical Bank West, Huntington National Bank, Fifth Third Bank, and Flagstar Bank.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, \$223,265 of the government's bank balance of \$524,176 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

A reconciliation of cash and investments follows:

	<u>PRIMARY GOVERNMENT</u>
Carrying amounts of Deposits	<u>\$ 519,065</u>
Government-wide Statement of Net Assets	
Cash	\$ 518,153
Statement of Fiduciary Net Assets	
Cash	<u>912</u>
Total	<u>\$ 519,065</u>

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>
Receivables	
Taxes	\$ 6,724
Due from Other Governments	<u>22,059</u>
	<u><u>\$28,783</u></u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

C. Capital Assets

Primary Government

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 41,642	\$ 0	\$ 0	\$ 41,642
Construction in Progress	17,340	0	(17,340)	0
	<u>58,982</u>	<u>0</u>	<u>(17,340)</u>	<u>41,642</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated				
Land improvements	64,901	0	0	64,901
Buildings	194,666	281,104	0	475,770
Equipment, Furniture and Fixtures	237,672	0	0	237,672
	<u>497,239</u>	<u>281,104</u>	<u>0</u>	<u>778,343</u>
Total capital assets, being depreciated				

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Less accumulated depreciation for:				
Land improvements	9,310	3,245	0	12,555
Buildings	125,418	2,498	0	127,916
Equipment, Furniture and Fixtures	72,093	16,445	0	88,538
Total accumulated depreciation	206,821	22,188	0	229,009
Total capital assets, being depreciated, net	290,418	258,916	0	549,334
Governmental activities capital assets, net	\$ 349,400	\$ 258,916	\$ (17,340)	\$ 590,976

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

 Unallocated Depreciation \$ 22,188

Construction Commitments:

The major renovation of the township hall that was started last year is now complete as of March 31, 2007.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 113	\$ 0
Fiduciary Funds		
Current Tax Collection	0	113
	<u>\$ 113</u>	<u>\$ 113</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

E. Long-Term Debt

At March 31, 2007, the Township was not obligated for any long-term debt.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE

Reserved

General Fund

Telecommunications Right-of-Way

\$ 3,904

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

The Township has a defined contribution pension plan with John Hancock's Life Insurance Company, which covers all members of the Township Board. Each board member becomes eligible for coverage on the first policy anniversary date which the board member reaches age 18. A board member's normal retirement age is age 65 or, if later, on the 10th anniversary of the board member's entry date.

The formula for determining contributions is based on the board member's basic annual rate of compensation in effect at the beginning of each plan year. The plan year is April 1 to March 31 of the following year. Township contributions for each eligible participant are calculated as 18% of compensation. Participants are allowed to make voluntary after-tax contributions, in amounts ranging from 1% to 10% of compensation.

Township contributions to the plan for 2006-2007 amounted to \$5,046. In addition, the Township paid \$428 in service fees.

Total wages for those covered under the plan was \$28,032 and total wages for all employees including noncovered payroll was \$79,261.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

C. Property Taxes

The Township levied 1.2426 mills in tax on state taxable value of \$54,078,365 on the 2006 tax roll. The levy was for the following purposes:

General Operations	\$ <u>75,410</u>
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D. Due from Other Governments

Amount due from other governments consists of \$22,059 in state-shared revenues.

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2007

	<u>GENERAL FUND</u>		
	<u>ORIGINAL</u>	<u>FINAL</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 51,125	\$ 51,125	\$ 75,677
Licenses and Permits	4,900	4,900	5,371
State Grants	131,100	131,100	137,914
Charges for Services	32,100	32,100	20,234
Interest and Rents	5,550	5,550	20,610
Other Revenues	3,700	3,700	6,809
Total Revenues	228,475	228,475	266,615
<u>EXPENDITURES</u>			
Legislative	43,500	43,500	47,771
General Government	404,061	404,061	350,038
Public Safety	52,300	52,300	25,653
Public Works	4,000	4,000	2,357
Community and Economic Development	1,570	1,570	978
Other Functions	5,000	5,000	3,785
Contingency	10,000	10,000	0
Total Expenditures	520,431	520,431	430,582
Excess (Deficiency) of Revenues	(291,956)	(291,956)	(163,967)
<u>FUND BALANCE</u> - Beginning of Year	291,956	291,956	710,474
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 546,507

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

GENERAL FUND

BALANCE SHEET
MARCH 31, 2007

ASSETS

Cash	\$ 518,153
Taxes Receivable	6,724
Due from Other Funds	113
Due from Other Governments	<u>22,059</u>
 TOTAL ASSETS	 <u><u>\$ 547,049</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	<u>\$ 542</u>
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FUND BALANCE

Reserved for Telecommunications Right-of-Way	3,904
Unreserved	<u>542,603</u>

TOTAL FUND BALANCE	<u>546,507</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 547,049</u></u>
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COLFAX TOWNSHIP, MECOSTA COUNTY

RODNEY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2007

	BUDGET	ACTUAL
<u>REVENUES</u>		
Taxes	\$ 51,125	\$ 75,677
Licenses and Permits	4,900	5,371
State Grants	131,100	137,914
Charges for Services	32,100	20,234
Interest and Rents	5,550	20,610
Other Revenues	3,700	6,809
Total Revenues	228,475	266,615
<u>EXPENDITURES</u>		
Legislative		
Township Board	43,500	47,771
General Government		
Supervisor	12,438	9,735
Election	6,050	2,746
Assessor	19,350	18,057
Clerk	17,915	13,112
Board of Review	1,650	1,466
Treasurer	18,882	21,281
Building and Grounds	285,826	269,449
Cemetery	41,950	14,192
Public Safety		
Fire Department	52,300	25,653
Public Works		
Highways, Streets, and Bridges	4,000	2,357
Community and Economic Development		
Planning and Zoning	1,570	978
Other Functions		
Employee Benefits	5,000	3,785
Contingencies	10,000	0
Total Expenditures	520,431	430,582
Excess (Deficiency) of Revenues Over Expenditures	(291,956)	(163,967)
<u>FUND BALANCE</u> - Beginning of Year	291,956	710,474
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 546,507

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
MARCH 31, 2007

	BALANCE			BALANCE	
	4/1/2006	ADDITIONS	DEDUCTIONS	3/31/2007	
<u>ASSETS</u>					
Cash in Bank	\$ 500	\$ 1,497,302	\$ 1,496,890	\$ 912	
<u>LIABILITIES</u>					
Due to Other Funds	\$ 0	\$ 72,577	\$ 72,464	\$ 113	
Due to Other Governments	500	1,422,320	1,422,021	799	
Due to Other Organizations and Individuals	0	2,405	2,405	0	
TOTAL LIABILITIES	\$ 500	\$ 1,497,302	\$ 1,496,890	\$ 912	

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

STATEMENT OF 2006 WINTER PROPERTY TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	192,676	
Township		75,410	
Schools			
Big Rapids Public Schools		446,955	
Chippewa Hills Public Schools		58,335	
Morley Stanwood Community Schools		86,603	
Intermediate School			
Mecosta - Osceola		<u>220,981</u>	\$ 1,080,960

TAXES COLLECTED

County	175,768	
Township	68,686	
Schools		
Big Rapids Public Schools	403,833	
Chippewa Hills Public Schools	52,013	
Morley Stanwood Community Schools	77,254	
Intermediate School		
Mecosta - Osceola	<u>201,576</u>	<u>979,130</u>

TAXES RETURNED DELINQUENT

County	16,908	
Township	6,724	
Schools		
Big Rapids Public Schools	43,122	
Chippewa Hills Public Schools	6,322	
Morley Stanwood Community Schools	9,349	
Intermediate School		
Mecosta - Osceola	<u>19,405</u>	<u>\$ 101,830</u>

COLFAX TOWNSHIP, MECOSTA COUNTY
RODNEY, MICHIGAN

STATEMENT OF 2006 SUMMER PROPERTY TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County	\$	214,468	
State Education Tax		<u>324,466</u>	\$ 538,934

TAXES COLLECTED

County	203,336	
State Education Tax	<u>305,239</u>	<u>508,575</u>

TAXES RETURNED DELINQUENT

County	11,132	
State Education Tax	<u>19,227</u>	<u>\$ 30,359</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

September 13, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Colfax Township
Mecosta County
Rodney, Michigan

During the course of our audit of the basic financial statements of Colfax Township for the year ended March 31, 2007, we noted the following:

Investments

The Township's investing of excess funds is being handled very efficiently. All cash is being maintained in interest bearing accounts. Interest earnings for the 2006-2007 fiscal year totaled approximately \$20,370.

General Recordkeeping

The accounting records for the year ended March 31, 2007, were found to be in good order and in compliance with the State's uniform accounting system. We commend the Clerk and Treasurer for a job well done and encourage them to keep up the fine effort.

Budgeting

Pertaining to the Township's compliance with Public Act 621 of 1978, the following items are noted:

- 1) The budget documents should include actual prior year amounts and also, estimate of current year amounts.
- 2) In addition to budgeted receipts and disbursements, the budget should include estimated beginning and ending fund balances.

We would like to thank the board for its continued confidence in our firm and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

September 13, 2007

To the Township Board
Colfax Township
Mecosta County
Rodney, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Colfax Township, Mecosta County, Rodney, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Colfax Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described in (1) above (Lack of Segregation of Duties) constitutes a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

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